

Minneapolis Community Development Agency

## Request for City Council Action

Date: October 14, 2003

To: Council Member Lisa Goodman, Community Development Committee  
Council Member Barbara Johnson, Ways and Means/Budget Committee

Prepared by Jack Kryst, Director, Development Finance, Phone 612-673-5130

Approved by Lee Sheehy, MCDA Executive Director  
Chuck Lutz, MCDA Deputy Executive Director \_\_\_\_\_

**Subject: Evaluation of Development Funding Cycle Process**

**Previous Directives:** On October 25, 2002, the City Council approved a process for implementing development funding cycles, to be effective March 2003. Tax increment financing requests were excluded from the process; this decision was to be revisited in one year. Staff was directed to evaluate and monitor the funding cycle process. On September 16, 2003, the Community Development Committee approved a motion to reverse the October 25, 2002 Council action. On September 22, 2003, the Ways & Means/Budget Committee directed staff to report back to the Community Development Committee with an evaluation of the process.

**Ward:** Not applicable.

**Neighborhood Group Notification:** Not applicable.

**Consistency with *Building a City That Works*:** Not applicable.

**Comprehensive Plan Compliance:** Not applicable.

**Zoning Code Compliance:** Not applicable.

**Impact on MCDA Budget:** (Check those that apply)

- ☒ No financial impact
- ☐ Action requires an appropriation increase to the MCDA Budget
- ☐ Action provides increased revenue for appropriation increase
- ☐ Action requires use of contingency or reserves
- ☐ Other financial impact (Explain):

**Living Wage / Business Subsidy:** Not applicable.

**Job Linkage:** Not applicable.

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**Affirmative Action Compliance:** Not applicable.

**RECOMMENDATION:**

**That, notwithstanding previous actions, the practice of conducting quarterly development funding cycles be discontinued.**

**Background**

On October 25, 2002, the City Council approved a process for implementing quarterly development funding cycles, effective March 2003. The Council action also included the directive to hold a strategic planning session to address development priorities prior to the implementation of funding cycles. Strategic planning sessions were held in January and February 2003.

Requests for the following types of public financial assistance are subject to development funding cycles:

- tax abatement approvals
- Leveraged Investment Fund approvals
- other gap funding approvals
- Commercial Corridor Fund approvals
- Neighborhood Economic Development Fund (NEDF) approvals
- Community Commercial Economic Development Fund (CEDF) approvals
- Minneapolis Industrial Land and Employment Strategy (MILES) approvals
- developer selection following a Request for Proposals (RFP) process

The Multifamily Rental and Cooperative Program RFP and the Low Income Housing Tax Credit processes were considered special cases, and were exempted from funding cycle requirements.

Development funding cycles were conducted in March, June and September 2003.

On September 16, 2003, the Community Development Committee approved a motion to reverse the October 25, 2002 Council action. On September 22, 2003, the Ways & Means/Budget Committee directed staff to report back to the Community Development Committee with an evaluation of the development funding cycle process.

**Evaluation of Funding Cycles to Date**

Project Volume

The volume of funding requests was low during the first three quarters of 2003, reflecting market conditions and reductions in available funding for community development activity.

The following items were included in the first three funding cycles:

<u>March 2003</u>	Allocation of \$300,000 in CEDF CDBG funds to the Hubbard Building Project (1101 West Broadway)
<u>June 2003</u>	Approval of \$40,000 Commercial Corridor loan to AINDC for Snyder's Drugstore in Ancient Trader's Market/Franklin Circles Shopping Center  Appropriation of \$110,000 in MILES funds for site work in Seward South Industrial Park  Project Analysis Authorization (PAA) and developer selection for Hiawatha & Lake Redevelopment Area Sites LS3 and LS4
<u>September 2003</u>	Approval of \$350,000 CEDF loan to AINDC for Franklin Bakery project

#### Effect of Funding Cycle Timing

The approval of the Franklin Bakery loan was delayed by approximately two months as a result of the funding cycle schedule. It had been anticipated that the proposal would be included in the June funding cycle, but a few days' delay in receiving some financial information from the developer resulted in having to hold the proposal until the September cycle.

Although there is a provision for exempting proposals from the funding cycle requirement if a compelling reason exists, an exemption was not requested for the Franklin Bakery project. During the first three cycles, there were no requests for exemptions. A report to be presented to the MCDA Operating Committee during the current Council cycle requests an exemption for the Lake Street Center developer selection.

In the case of developer selection following the Hiawatha & Lake RFP process, project staff felt that developer selection was unduly complicated by the funding cycle process. In order to be ready for the June funding cycle, the time allowed for neighborhood review was compressed. Inclusion in the funding cycle required that the report regarding developer selection and Project Analysis Authorization (PAA) be brought to the City Council, even though only MCDA Board action was required.

#### Project Comparison

The purpose of implementing funding cycles was to facilitate comparison of proposals and selection of projects that best fit City priorities. Two or more proposals for the same source of funds have not occurred in any given cycle to date.

The low volume of items under consideration in each cycle led to the practice of comparing proposed projects to other recently proposed or approved projects. This practice, which could continue independent of the structure of funding cycles, achieved the objectives of comparing proposals and selecting those that fit priorities.

#### Tax Increment Financing Approvals

The October 2002 Council action excluded tax increment financing approvals from the funding cycle process, but stipulated that this decision was to be revisited in one year. The reasons for excluding tax increment approvals included the fact that tax increment projects do not compete with one another for a specified amount of funds, as well as concerns about lengthening and complicating the development process. The staff position was that it was possible to achieve the chief benefit of funding cycles (comparison of proposals) independent of cycles and without the added burdens on the process.

The volume of new tax increment activity was low during the first three quarters of 2003. Two new tax increment districts were approved: the Housing Replacement TIF District II and the Grain Belt Housing TIF District. If establishment of these districts had been subject to funding cycles, approval of the Housing Replacement TIF District II would have been delayed by two Council cycles. Approval of the Grain Belt Housing TIF District coincidentally occurred at the same time as the September funding cycle.

It is anticipated that the Village in Phillips TIF District will be approved on November 21. That approval would be delayed one Council cycle if subject to funding cycles.

Since implementation of funding cycles staff has included comparisons with other recently approved TIF districts in reports to the City Council requesting approval of a new TIF district. This practice achieves the objectives of comparing proposals and approving those that meet City priorities without subjecting TIF approvals to funding cycle timing. The practice will continue regardless of the disposition of the funding cycle policy.

#### Staff Recommendations

It is recommended that funding cycles be discontinued. Experience with the first three cycles indicates that there are no compelling reasons to continue the practice.

The primary benefit of funding cycles has been the comparison of proposals to other recent proposals for the use of the same type of funds. Staff recommends that this practice continue for all actions currently subject to funding cycles, as well as for tax increment proposals.

There would be modest administrative workload savings to both development and Council staff with the elimination of the cycles. Staff work includes the coordination of

the preparation of individual reports and the preparation and presentation of a cover report for each cycle.

Additionally, there would be a simplification of the development approval process with the elimination of funding cycle requirement and the need to coordinate schedules to accommodate the funding cycle calendar.

The October 2002 Council action included "developer selection following a Request for Proposals (RFP) process" among the actions subject to funding cycles. Staff has realized that since developer selection alone does not typically involve a financial commitment, there is little benefit in including developer selection in funding cycles. If the decision is made to continue funding cycles, it is recommended that developer selection following an RFP process be removed from the list of actions subject to funding cycles.

It is further recommended that tax increment financing approvals continue to be exempt from funding cycles. Statutory and local ordinance requirements regarding the review and approval of proposed TIF plans already result in a minimum two-month process. Subjecting TIF approvals to funding cycles could substantially extend the time required for approval.